

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                         |   |                      |
|--|-------------------------|---|----------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                         | Local Unit Name<br>BEAVER ISLAND DISTRICT LIBRARY | County<br>CHARLEVOIX |
| Fiscal Year End<br>3/31/06   | Opinion Date<br>6/16/06 | Date Audit Report Submitted to State<br>8/31/06   |                      |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

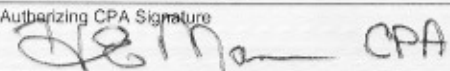
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input checked="" type="checkbox"/> |  |                              |
| Other (Describe)   | <input type="checkbox"/>            |  |                              |
| Certified Public Accountant (Firm Name)<br>MASON & KAMMERMANN, P.C.  |                                     | Telephone Number<br>(231) 547-4911         |                              |
| Street Address<br>110 PARK AVENUE  |                                     | City<br>CHARLEVOIX                         | State<br>MI                  |
|  |                                     | Zip<br>49720                               |                              |
| Authorizing CPA Signature<br> CPA |                                     | Printed Name<br>HUGH E. MASON              | License Number<br>1101008161 |

BEAVER ISLAND DISTRICT LIBRARY  
BEAVER ISLAND, MICHIGAN

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FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION  
for the year ended March 31, 2006

MASON & KAMMERMANN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CHARLEVOIX, MICHIGAN

# **Beaver Island District Library**

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MASON & KAMMERMANN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

June 16, 2006

Board of Trustees  
Beaver Island District Library  
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Beaver Island District Library, as of and for the year ended March 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Beaver Island District Library as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mason & Kammermann PC".

Mason & Kammermann, P.C.  
Certified Public Accountants

# **Beaver Island District Library**

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## **Management's Discussion and Analysis**

**June 16, 2006**

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Beaver Island District Library's basic financial statements. The Library's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the entity that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Library include a single program function, culture and recreation.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Beaver Island District Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Library are classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

# Beaver Island District Library

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## Management's Discussion and Analysis June 16, 2006

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### Summary of Net Assets

The following schedule summarizes the net assets at March 31, 2006:

| <u>Assets</u>                                   |                   |
|---|-------------------|
| <b>Assets</b>                                   |                   |
| Current Assets                                  | \$ 118,682        |
| Capital Assets, net of accumulated depreciation | <u>37,260</u>     |
| Total Current Assets                            | <u>155,942</u>    |
| <br><u>Liabilities and Net Assets</u>           |                   |
| <b>Liabilities</b>                              |                   |
| Accrued Payroll Taxes                           | 1,599             |
| <br><b>Net Assets</b>                           |                   |
| Invested in Capital Assets                      | 37,260            |
| Unrestricted                                    | <u>117,083</u>    |
| Total Net Assets                                | <u>\$ 154,343</u> |

### Analysis of Financial Position

During the fiscal year ended March 31, 2006 the Library's net assets increased by \$12,653. The Library has \$117,083 of unrestricted net assets, which could be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

# Beaver Island District Library

## Management's Discussion and Analysis June 16, 2006

### Depreciation Expense

GASB 34 requires libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended March 31, 2006, \$11,632 was recorded for depreciation expense.

### Capital Outlay Acquisitions

For the fiscal year ended March 31, 2006, \$22,555 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$10,923 for the fiscal year ended March 31, 2006.

### Results of Operations

For the fiscal year ended March 31, 2006, the results of operations were:

|                                  | <u>Amount</u>    | <u>% of Total</u> |
|----------------------------------|------------------|-------------------|
| <b>General Revenues</b>          |                  |                   |
| Property Taxes                   | \$ 82,629        | 90.2%             |
| Investment Earnings              | 908              | 1.0%              |
| Penal Fines                      | 3,053            | 3.3%              |
| State Aid                        | 479              | 0.6%              |
| Other                            | <u>2,779</u>     | <u>3.0%</u>       |
| Total General Revenues           | <u>89,848</u>    | <u>98.1%</u>      |
| <b>Program Revenues</b>          |                  |                   |
| Charges for Services             | 1,059            | 1.2%              |
| Operating Grants & Contributions | <u>670</u>       | <u>0.7%</u>       |
| Total Revenues                   | <u>91,577</u>    | <u>100.0%</u>     |
| <b>Expenses</b>                  |                  |                   |
| Recreation and Culture           | <u>78,924</u>    | <u>100.0%</u>     |
| Changes in Net Assets            | <u>\$ 12,653</u> |                   |



# **Beaver Island District Library**

## **Management's Discussion and Analysis June 16, 2006**

Significant revenues and expenses are discussed in the segments below:

### **1. Property Taxes**

The voters of Peaine and St. James Townships have approved the levy of .9003 mills for property taxes to fund the Library's operations. This resulted in \$82,629 being collected for the Library's operations.

### **2. Local Sources**

The majority of the local source income is comprised of penal fines received from Charlevoix County. The Library collected \$3,053 in penal fines for 2006.

### **3. Used Book Sales**

During the year, the Library sold used books, which accounted for \$1,059.

### **Expenditures**

A comparison of expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

| <b>Expenditures</b>     | <b>Amount</b>    | <b>% of Total</b> |
|-------------------------|------------------|-------------------|
| Salaries and Wages      | \$ 43,738        | 48.7%             |
| Payroll Taxes           | 4,062            | 4.5%              |
| Utilities               | 6,828            | 7.6%              |
| Insurance               | 834              | 0.9%              |
| Repairs and Maintenance | 3,978            | 4.4%              |
| Library Books           | 7,686            | 8.6%              |
| Subscriptions           | 1,675            | 1.9%              |
| Office Supplies         | 2,439            | 2.7%              |
| Travel                  | 730              | 0.8%              |
| Dues and Fees           | 290              | 0.3%              |
| Miscellaneous           | 2,718            | 3.0%              |
| Capital Outlay          | 14,869           | 16.6%             |
| Total Expenditures      | <u>\$ 89,847</u> | <u>100.0%</u>     |

# **Beaver Island District Library**

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## **Management's Discussion and Analysis June 16, 2006**

### **Capital Assets**

At March 31, 2006, the Library had \$133,691 in capital assets, including equipment and books. Depreciation expense for the year amounted to \$11,632 bringing the accumulated depreciation to \$96,431 as of March 31, 2006.

### **Requests for Information**

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the Library's finances. If you have questions about this report, please contact Beaver Island District Library, 26400 Donegal Bay Road, Beaver Island, MI 49782.

# Beaver Island District Library

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## Statement of Net Assets March 31, 2006

| <u>Assets</u>                                | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Current Assets</b>                        |                                    |
| Cash   | \$ 101,532                         |
| Investments                                  | 8,432                              |
| Due From Other Governmental Units            | <u>8,718</u>                       |
| Total Current Assets                         | <u>118,682</u>                     |
| <b>Noncurrent Assets</b>                     |                                    |
| Capital Assets                               | 133,691                            |
| Less: Accumulated Depreciation               | <u>(96,431)</u>                    |
| Total Noncurrent Assets                      | <u>37,260</u>                      |
| Total Assets                                 | <u>155,942</u>                     |
| <br><b><u>Liabilities and Net Assets</u></b> |                                    |
| <b>Current Liabilities</b>                   |                                    |
| Accrued Payroll Taxes                        | 1,599                              |
| <b>Net Assets</b>                            |                                    |
| Invested in Capital Assets                   | 37,260                             |
| Unrestricted                                 | <u>117,083</u>                     |
| Total Net Assets                             | <u><u>\$ 154,343</u></u>           |

The accompanying notes are a part of the financial statements.

# **Beaver Island District Library**

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## **Statement of Activities For The Year Ended March 31, 2006**

|                                    | <u><b>Expenses</b></u>   |
|------------------------------------|--------------------------|
| <b>Recreation and Culture</b>      |                          |
| Salaries & Wages                   | \$ 43,738                |
| Payroll Taxes                      | 4,062                    |
| Utilities                          | 6,828                    |
| Insurance                          | 834                      |
| Repairs and Maintenance            | 3,978                    |
| Subscriptions                      | 1,675                    |
| Office Supplies                    | 2,439                    |
| Travel                             | 730                      |
| Dues and Fees                      | 290                      |
| Miscellaneous                      | 2,718                    |
| Depreciation                       | <u>11,632</u>            |
| Total Program Expenses             | 78,924                   |
| <b>Program Revenues</b>            |                          |
| Book Sales                         | 1,059                    |
| Operating Grants and Contributions | <u>670</u>               |
| Net Program Expenses               | (77,195)                 |
| <b>General Revenues</b>            |                          |
| Property Taxes                     | 82,629                   |
| Investment Earnings                | 908                      |
| Penal Fines                        | 3,053                    |
| State Aid                          | 479                      |
| Other                              | <u>2,779</u>             |
| Total General Revenues             | <u>89,848</u>            |
| <b>Change in Net Assets</b>        | 12,653                   |
| <b>Net Assets - April 1, 2005</b>  | <u>141,690</u>           |
| <b>Net Assets - March 31, 2006</b> | <u><u>\$ 154,343</u></u> |

The accompanying notes are a part of the financial statements.

# **Beaver Island District Library**

## **Governmental Funds Balance Sheet March 31, 2006**

| <b><u>Assets</u></b>                          | <b><u>General<br/>Fund</u></b> |
|---|--------------------------------|
| Cash  | \$ 101,532                     |
| Investments                                   | 8,432                          |
| Due From Other Governmental Units             | <u>8,718</u>                   |
| Total Assets                                  | <u><u>\$ 118,682</u></u>       |
| <br><b><u>Liabilities and Fund Equity</u></b> |                                |
| Liabilities:                                  |                                |
| Accrued Payroll Taxes                         | \$ 1,599                       |
| Fund Balance                                  |                                |
| Undesignated                                  | <u>117,083</u>                 |
| Total Liabilities & Fund Equity               | <u><u>\$ 118,682</u></u>       |

The accompanying notes are a part of the financial statements.

# **Beaver Island District Library**

## **Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2006**

|                                  |            |
|----------------------------------|------------|
| Total Governmental Fund Balances | \$ 117,083 |
|----------------------------------|------------|

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets and unamortized expenses used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.

|                          |                 |               |
|--------------------------|-----------------|---------------|
| Cost of capital assets   | \$ 133,691      |               |
| Accumulated depreciation | <u>(96,431)</u> |               |
|                          |                 | <u>37,260</u> |

|                                       |                          |
|---------------------------------------|--------------------------|
| Net Assets of Governmental Activities | <u><u>\$ 154,343</u></u> |
|---------------------------------------|--------------------------|

The accompanying notes are a part of the financial statements.

# **Beaver Island District Library**

## **Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances For The Year Ended March 31, 2006**

|                                       | <b>General<br/>Fund</b>  |
|---------------------------------------|--------------------------|
| <b>Revenues:</b>                      |                          |
| Local Sources                         |                          |
| Property Tax Levy                     | \$ 82,629                |
| Earnings on Investments and Deposits  | 908                      |
| Book Sales                            | 1,059                    |
| Donations                             | 670                      |
| Miscellaneous                         | 2,779                    |
| Intermediate Sources                  |                          |
| Penal Fines                           | 3,053                    |
| State Sources                         |                          |
| State of Michigan                     | 479                      |
| Total Revenues                        | <u>91,577</u>            |
| <b>Expenditures:</b>                  |                          |
| Salaries & Wages                      | 43,738                   |
| Payroll Taxes                         | 4,062                    |
| Utilities                             | 6,828                    |
| Insurance                             | 834                      |
| Repairs and Maintenance               | 3,978                    |
| Library Books                         | 7,686                    |
| Subscriptions                         | 1,675                    |
| Office Supplies                       | 2,439                    |
| Travel                                | 730                      |
| Dues and Fees                         | 290                      |
| Miscellaneous                         | 2,718                    |
| Capital Outlay                        | 14,869                   |
| Total Expenditures                    | <u>89,847</u>            |
| Net Change in Fund Balance            | 1,730                    |
| <b>Fund Balances - April 1, 2005</b>  | <u>115,353</u>           |
| <b>Fund Balances - March 31, 2006</b> | <u><u>\$ 117,083</u></u> |

The accompanying notes are a part of the financial statements.

# **Beaver Island District Library**

## **Governmental Funds Reconciliation of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For Year Ended March 31, 2006**

|  |          |
|--|----------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 1,730 |
|--|----------|

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays and intangible assets as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation or amortization.

|   |                  |
|---|------------------|
| Depreciation Expense                            | (11,632)         |
| Capital Outlay                                  | <u>22,555</u>    |
| Changes in Net Assets - Governmental Activities | <u>\$ 12,653</u> |

The accompanying notes are a part of the financial statements.



# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The Beaver Island District Library was established in 1986 under Act 164 of 1955, to provide library services primarily to residents of Peaine and St. James Townships. It is primarily funded by tax revenues from these governmental units.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library has one governmental fund called the General Fund.

# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

### **C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

#### **Accrual Method**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

#### **Modified Accrual Method**

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

### **D. Assets, Liabilities and Equity**

#### **1. Cash and Investments**

Cash is comprised of the amount of funds in bank accounts.

Investments consisting of certificates of deposit are stated at cost or amortized cost, which approximates market.

#### **2. Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

The land and building used for Library operations have been donated for Library services and have been deeded to Peaine and St. James Townships.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

|           |         |
|-----------|---------|
| Books     | 7 years |
| Equipment | 5 years |

The Library's capitalization policy is to capitalize individual amounts exceeding \$500 and all books.

#### **3. Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### **4. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

### **5. Long-Term Obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. As of March 31, 2006, the Library has no long-term debt outstanding.

### **6. Accounting Change**

As of April 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library’s activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$133,691, which was the amount previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Library’s applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

The implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with implementation of Statement No. 34 based on GASB No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

### **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

An operating budget is prepared annually. The operating budget includes proposed expenditures and the means of financing them.

The budget is approved by the Library Board prior to the start of the fiscal year that it covers.

All transfers of budget amounts between accounts within the General Fund must be approved by the Library Board.

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. The budget was amended twice during the year.

Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be re-appropriated and honored during the subsequent year.

#### **Excess of Expenditures over Appropriations in Budgeted Funds**

During the year, the Library did not incur expenditures in excess of the amount appropriated.

### **III. DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP**

#### **A. Deposits and Investments**

The cash in bank, including the certificates of deposit, are on deposit with local federally insured financial institutions.

# Beaver Island District Library

## Notes To Financial Statements For The Year Ended March 31, 2006

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

|           |                   |
|-----------|-------------------|
| Insured   | \$ 100,000        |
| Uninsured | <u>9,964</u>      |
|           | <u>\$ 109,964</u> |

### B. Capital Assets

A summary of changes in the Library's capital assets follows:

|  | <b>Balance<br/>April 1, 2005</b> | <b>Additions</b> | <b>Deletions</b> | <b>Balance<br/>March 31, 2006</b> |
|--|----------------------------------|------------------|------------------|-----------------------------------|
| Capital assets being depreciated:      |                                  |                  |                  |                                   |
| Equipment                              | \$ 45,386                        | \$ 14,869        | \$ -             | \$ 60,255                         |
| Book collection                        | <u>65,750</u>                    | <u>7,686</u>     | <u>-</u>         | <u>73,436</u>                     |
| Total capital assets being depreciated | 111,136                          | 22,555           | -                | 133,691                           |
| Less: accumulated depreciation         | <u>(84,799)</u>                  | <u>(11,632)</u>  | <u>-</u>         | <u>(96,431)</u>                   |
| Total Net Capital Assets               | <u>\$ 26,337</u>                 | <u>\$ 10,923</u> | <u>\$ -</u>      | <u>\$ 37,260</u>                  |

Depreciation for the fiscal year ended March 31, 2006 amounted to \$11,632.

### C. Property Taxes

Property taxes are levied on July first and December first and are payable by September fourteenth and February fourteenth. Property tax revenues are recognized when levied.

The Library is supported by the taxpayers of Peaine and St. James Townships and have approved the following taxes to finance the Library's operations:

| <u>DISTRICT</u>    | <u>MILLS</u> | <u>TAXABLE<br/>VALUATION</u> |
|--------------------|--------------|------------------------------|
| Peaine Township    | .9003        | \$ 53,482,675                |
| St. James Township | .9003        | \$ 37,044,052                |

# **Beaver Island District Library**

## **Notes To Financial Statements For The Year Ended March 31, 2006**

### **IV. OTHER INFORMATION**

#### **A. Risk Management**

The Library participates in the Michigan Municipal League Insurance Pool through its association with St. James Township to provide workers' compensation coverage and general liability and property insurance. The Library contributed \$834 to the fund for this insurance coverage. There were no significant reductions in insurance coverage from the prior year.

# Beaver Island District Library

## Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2006

|  | Original<br>Budget | Final<br>Budget | Actual     | Variance with<br>Final Budget<br>Over (Under) |
|--|--------------------|-----------------|------------|---|
| <b>Revenues:</b>                                     |                    |                 |            |   |
| Local Sources  |                    |                 |            |   |
| Property Tax Levy                                    | \$ 76,041          | \$ 83,201       | \$ 82,629  | \$ (572)                                      |
| Earnings on Investments and Deposits                 | 600                | 875             | 908        | 33  |
| Donations  | 1,000              | 1,000           | 670        | (330)   |
| Book Sales   | -                  | -               | 1,059      | 1,059   |
| Miscellaneous  | -                  | -               | 2,779      | 2,779   |
| Intermediate Sources                                 |                    |                 |            |   |
| Penal Fines  | 2,900              | 3,100           | 3,053      | (47)  |
| State Sources  |                    |                 |            |   |
| State of Michigan                                    | 500                | 500             | 479        | (21)  |
| Total Revenues                                       | 81,041             | 88,676          | 91,577     | 2,901   |
| <b>Expenditures:</b>                                 |                    |                 |            |   |
| Salaries & Wages                                     | 44,000             | 44,000          | 43,738     | (262)   |
| Payroll Taxes  | 1,800              | 2,500           | 4,062      | 1,562   |
| Professional Services                                | -                  | 1,500           | -          | (1,500)                                       |
| Utilities & Telephone                                | 5,400              | 6,828           | 6,828      | -   |
| Insurance  | 850                | 850             | 834        | (16)  |
| Repairs and Maintenance                              | 4,000              | 4,000           | 3,978      | (22)  |
| Library Books  | 9,000              | 9,000           | 7,686      | (1,314)                                       |
| Subscriptions  | 1,400              | 1,800           | 1,675      | (125)   |
| Office Supplies                                      | 2,500              | 2,500           | 2,439      | (61)  |
| Travel   | 150                | 800             | 730        | (70)  |
| Dues and Fees  | -                  | -               | 290        | 290   |
| Miscellaneous  | 2,500              | 3,000           | 2,718      | (282)   |
| Capital Outlay                                       | 29,293             | 21,734          | 14,869     | (6,865)                                       |
| Total Expenditures                                   | 100,893            | 98,512          | 89,847     | (8,665)                                       |
| Excess (Deficiency) of Revenues<br>Over Expenditures | (19,852)           | (9,836)         | 1,730      | 11,566  |
| <b>Fund Balance - April 1, 2005</b>                  | 115,353            | 115,353         | 115,353    | -   |
| <b>Fund Balance - March 31, 2006</b>                 | \$ 95,501          | \$ 105,517      | \$ 117,083 | \$ 11,566                                     |



MASON & KAMMERMANN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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Telephone (231) 547-4911  
Facsimile (231) 547-5911

August 22, 2006

To the Board of Beaver  
Island District Library

We have audited the financial statements of Beaver Island District Library for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Auditor's Responsibility**

We conducted our audit of the financial statements of Beaver Island District Library in accordance with auditing standards accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion"

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **Significant Accounting Policies**

The significant accounting policies are described in Note 1 to the financial statements.

### **Other Communications**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available for review.

### **Comments and Recommendations Regarding Internal Controls, Compliance and Efficiency**

Our procedures disclosed the following conditions that we would like to bring to your attention:

### **Segregation of Duties**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication effort.

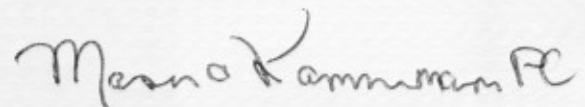
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated March 31, 2006.

### **Summary**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Mason & Kammermann PC".

Mason & Kammermann, P.C.  
Certified Public Accountants